



City of San Diego

CARL DEMAIO
CITY COUNCILMEMBER – DISTRICT 5

KEVIN FAULCONER
CITY COUNCILMEMBER – DISTRICT 2

MEMORANDUM

DATE: May 11, 2009

TO: Honorable Mayor and City Council
City Attorney
City Auditor

FROM: Councilmember Kevin Faulconer
Councilmember Carl DeMaio

RE: Employee Bonuses Awarded in Water and Wastewater Departments

It has come to our attention that nearly 1500 city employees in the Water and Wastewater Department are slated to receive bonuses in the coming weeks -- ranging from \$1200 to \$6200 each. The bonuses are part of the city's "Bid-to-Goal" program.

At this morning's Audit Committee hearing several concerns were raised on this program which we are memorializing in this memorandum to ensure full and prompt response.

Calculation of Savings for Bonuses

Under the "Bid-to-Goal" program, the bonuses will be funded through a purported \$37 million savings pool created using projected expenses vs. actual expenses in three divisions of the department. It is unclear whether the "actual expenses" include full accounting for unfunded pension and retiree healthcare liabilities. Before paying any bonuses from this pool, the Committee requested additional justification and assurance that all obligations for pension and retiree healthcare are reflected.

Performance Goals Not Met

An external audit revealed that several performance goals were not met -- despite being originally reported by the department as having been met. The audit recommends a

number of improvements in the manner in which performance is measured, monitored, and managed.

Responsibility for Audit “Acceptance”

We expressed concern on the timetable for approving the bonuses – only to be told that the bonuses under the bid-to-goal program are automatically awarded upon “acceptance” of the audit by the City. We were told that department management had already made the determination of accepting the audit – apparently without input from the Audit Committee. The Committee asked the City Attorney’s Office to opine as to the appropriateness of this procedure given the responsibility of the Audit Committee pursuant to Proposition C approved in June 2008.

Evaluation of the “Bid-to-Goal” Program

The independent auditor noted in their report that “we were not engaged to, and did not conduct an audit...on the Pay for Performance program.” While we support the thinking behind the “Bid-to-Goal” Program of providing incentives to employees, we remain concerned about the way the program is being implemented and are calling for an independent audit and evaluation of the program as a whole. Accordingly, the City Auditor was asked to report back to the Audit Committee on the possibility of his office conducting this kind of comprehensive evaluation.

Additionally, we expressed a desire to proceed forward with Managed Competition of these functions to provide for a real “bidding” element for “Bid-to-Goal” program. We request that the Mayor’s office respond to the possibility of including these three functions in the first round of Managed Competition.

During these extraordinarily challenging economic times, awarding these kinds of bonuses raises red flags on its own. Moreover, while we remain supportive of exploring innovative and rewarding programs like the “Bid-to-Goal” process, we are skeptical of the way in which this program is being implemented and believe additional scrutiny is warranted before any bonuses are awarded.